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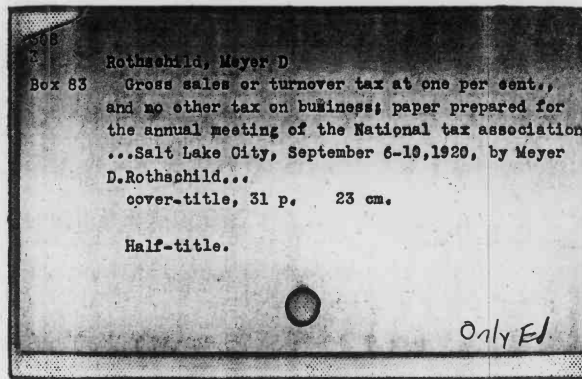
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GROSS SALES, OR TURNOVER TAX

AT ONE PER CENT.

And No Other Tax on Business

Paper prepared for the Annual Meeting
of the National Tax Association,

☐ held in Salt Lake City, ☐
☐ September 6-10, 1920 ☐

BY

MEYER D. ROTHSCHILD

Chairman of the Business Men's National Tax Committee

6 WEST 48th STREET
NEW YORK CITY

14 Oct 1920 Smr

Paper on the Gross Sales, or Turnover Tax

Prepared for the Annual Meeting of the National Tax Association
Held in Salt Lake City, September 6th to 10th, 1920

By MEYER D. ROTHCHILD
Chairman of the Business Men's National Tax Committee

The Revenue Act of 1918, the present revenue law, was a war measure, framed to meet the emergency which then confronted the country. Its object was to secure in the shortest possible time the largest possible amount of revenue. Those who shaped the bill in its present form succeeded admirably in that purpose. They quickly secured from a willing and patriotic people undreamed of amounts of revenue.

Now, however, that the war is over and the law has been operating for some time, its defects have become painfully apparent and the motive of patriotism which secured willing acquiescence in its hardships during the war is being replaced by an eagerness to see its defects remedied and its inequities abolished.

Even the framers of the law admit that it has serious defects and that some of the features which were intended to secure huge revenues from war-time profits will soon cease to be productive. Instead, however, of grasping the opportunity of giving the country a stable, permanent revenue law, sufficiently elastic to meet all the emergencies of peace, some of those who helped to frame it are persistently clinging to its most objectionable features. While willing, for instance, to eliminate excess profits taxes and perhaps the higher surtaxes, they wish to retain the indefensible special taxation and insert provisions even more complex to replace the revenue lost by the provisions to be stricken out. Now is the time, and this is the opportunity, to have a revenue law which shall be simple, equitable, economical and business-like.

The paramount object of tax laws is to secure sufficient revenue to pay for the proper administration of the Government, with all that this implies. This is primarily a business proposition, which, however, has never been relegated to the supervision of that class of the population which knows the most about business administration. It is time, therefore, that the business men of the country apply their business knowledge, their business training, and their business experience to this biggest business of furnishing to the Government all the money required, and furnishing it in a business-like manner and on business principles.

To achieve this end the problem must be approached in a broad and patriotic spirit and not from the point of view of any group of taxpayers. It is a matter for all the people and no class should be favored or considered above any other class. Each man should contribute to the expenses of the Government according to his means and the service which the Government renders in protecting him.

Soon after the armistice was signed, President Wilson recommended to Congress the immediate revision of the tax law so as to relieve business from irritating special war taxes. Again, in his message to Congress in May, 1919, the President said:

"Credit and enterprise alike will be quickened by timely and helpful legislation with regard to taxation. I hope that the Congress will find it possible to undertake an early reconsideration of federal taxes in order to make our system of taxation more simple and easy of administration and the taxes themselves as little burdensome as they can be made and yet suffice to support the Government and meet all its obligations."

The Republican and Democratic platforms have declared for immediate tax reform and the candidates of the two great parties have publicly recognized the blighting effect of our present taxes on business and the impossibility of adequately reducing the high cost of living before revising our entire complicated system of taxation.

As a matter of fact, there was no remedial legislation during 1919, and therefore, early in 1920, a group of business men representing some twenty-odd national business organizations formed the Business Men's National Tax Committee. On March 24th they met and adopted the following resolutions which fully explain the program of the Committee:

RESOLUTIONS ADOPTED BY THE BUSINESS MEN'S NATIONAL TAX COMMITTEE

At Their Meeting Held on March 24, 1920

WHEREAS: The Excess-Profits Tax, the Surtax and the numerous Excise, Special and Stamp Taxes of the Revenue Act of 1918 are excessive, discriminatory and ill-adapted to peace time conditions; and

WHEREAS: These heavy and uncertain taxes, through the pyramiding of taxes as goods are passed from hand to hand, are an important factor in the increasing of prices to the consumer; and

WHEREAS: The heavier surtaxes on incomes make it more profitable for persons with large incomes to invest money in non-taxable bonds rather than in industrial, railroad, public service or other taxable securities, thus diverting huge amounts of investment capital to non-taxable bonds, and, to the extent of such non-taxable investments, exempting persons of great wealth from taxation; and

WHEREAS: Taxes on personal incomes should be simplified by

dropping the Surtaxes and levying a graduated income tax instead, stopping at the point where any further increase would drive the possessors of great income to place their wealth in wholly exempt securities; and

WHEREAS: The greatly increased cost of living and the decreased purchasing-power of the dollar make it advisable in the interest of persons of small incomes that the "Specific Exemptions" should be increased, with exemptions for each child under eighteen and for dependents over that age; and

WHEREAS: It has been estimated that a Gross Sales or Turnover Tax of one per centum on the sales of all kinds of goods, wares and merchandise, embracing raw materials, manufactured goods, and real property, and including the receipts of public and personal service corporations, amusements, clubs and other like receipts, will yield an annual revenue of from four to six billion dollars; and

WHEREAS: The required taxable percentage on such Sales or Turnovers can be established to yield sufficient revenue from business, and no other Revenue Taxes of any kind whatever should be levied on business; and

WHEREAS: The best minds of the country, both in and out of Congress, are agreed that the interests of all our people demand a prompt, thorough-going revision of the Revenue Act of 1918; and

WHEREAS: The business men and consumers of the United States are all deeply interested in the enactment of a Tax Law which, while yielding adequate revenue for the needs of the Government, shall equitably distribute the burden of taxation in a manner which will not unduly interfere with the prosperity of the people; and

WHEREAS: The question of equitable and efficient taxation is a national problem in which all citizens, regardless of party affiliation, are vitally interested; and

WHEREAS: We believe that the leaders, as well as the rank and file of all political parties, are eager for an immediate, business-like revision of our tax laws; and

WHEREAS: We believe that all the members of the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate will gladly accept the co-operation of the business men of the country in framing a new revenue law; now, therefore, be it

RESOLVED: That we urge upon Congress to promptly repeal the Excess Profits Tax, the Surtax, and all Excise, Special, and Stamp taxes of the Revenue Act of 1918, and to substitute for those war taxes a Gross Sales, or Turnover Tax, and a Graduated Income Tax on personal incomes, with an increase of "Specific Exemptions" on personal incomes; and be it further

RESOLVED: That copies of these resolutions be sent to the President of the United States, the Secretary of the Treasury the members of Congress, and to the constituent members of the Chamber of Commerce of the United States.

This program contemplates the repeal of practically the entire Act of 1918 and the substitution of two kinds of taxation for the normal and excess profits taxes, capital stock taxes, the heavier income surtaxes, and the numerous excise, special and stamp taxes. These substitutes are a gross sales or turnover tax, and a graduated income tax; the former to be levied on all business, whether corporate, partnership or individual, including trusts and estates; and the latter to be levied on all personal incomes over a specified amount.

In discussing the program proposed by the Business Men's National Tax Committee, most time will be devoted to the turnover tax.

EXCESS PROFITS TAXES

There seems to be a consensus of opinion among economists, legislators, tax administrators and business men that the excess profits tax must be repealed and that the heavier surtaxes on private incomes, having failed to produce revenue, should be substantially modified.

While there is general agreement on the desirability of repealing the excess profits taxes, there is great difference of opinion between merchants and economists as to the effect which those taxes have upon the high cost of living. The motives of corporations favoring this repeal are questioned and arguments are adduced to prove that corporations have actually paid this tax from their net earnings and have not been able to pass along any substantial part of it to the consumer, as they claim to have done. "If they are passing it along," cries the economist, "why do the corporations ask to have it repealed?"

Corporations, partnerships and sole traders have not in the past paid the excess profits taxes and business income surtaxes from what they considered their legitimate profits, except under "surprise" conditions. In other words, as soon as business men realized that the Government was a partner in their profits, each strained every nerve to provide the Government's share out of additional profits which their customers, of course, were forced to provide. At the beginning, many businesses were not prepared for the division of profits with the Government, and as to them, the Government's share was probably paid in whole or in part out of regular earnings. Prior to the Act of 1917, the taxes on corporate and other business income were, of course, figured in the cost of the goods they sold and, after that act became a law, the anticipated excess profits taxes were promptly included as part of the cost of goods. As the exact percentage of excess profits was not determinable until the end of the business year, a safe margin had to be added to provide for largest possible profits.

On the face of this statement, then, it would seem that business

men have no cause for complaint when the tax which they pay to the Government is in reality paid by their customers, the corporation, partnership or sole trader acting merely as tax collector for the Government. The business man's objections to the excess profits tax and heavier income surtax on business profits, however, is based upon other features, some of which I shall briefly state:

1. It is admitted by critics who question the motives of business men in their objection to the excess profits tax, that this tax "depends largely upon the mere form and manner of organization, upon chance and accident, it is unequal and capricious, it penalizes conservative financing and rewards stock watering."

The inequalities of this tax may readily be shown by the following illustration:

Two corporations doing the same amount of business and making the same percentage of profit, are differently capitalized. The one which is conservatively capitalized is at a disadvantage, because the other, heavily capitalized with watered stock, can undersell its conservative competitor, which is much more heavily taxed.

2. The amount of the tax is uncertain until the end of the business year.
3. The share of the Government must be paid in cash within a year of its ascertainment.
4. The profits of business are not usually liquid but more often are tied up in book accounts, raw materials, machinery, and finished merchandise.
5. The Government some times receives large tax payments in a year when paper profits are greatly reduced or wiped out by shrinkage in values of raw materials and finished product, this being due to the fact that the tax is payable the year after it accrues.

A committee of eminent economists, reporting on war finance to the American Economic Association in March, 1919, anticipated with prophetic vision some things which have recently happened. This Committee says:

"It is to be observed that book profits, in times of expansion and inflation, are not the same as realized profits. A concern which expands its operations materially may expect to find that a large part of its war profits will be needed to finance its expanded business; while, if it expands beyond a certain moderate extent, it may also expect to be obliged to borrow very large sums of money. If its earnings are large and are not absorbed by excessive taxes, it may reasonably expect to repay its loans, provide for a possible shrinkage of its tangible assets, and ultimately realize its war profits. But expansion has its

hazards and these seem to be in direct proportion to its extent. War taxation, in particular, is a most serious hazard, *the importance of which may be more fully realized next spring than it is today.* Events may yet prove that in not a few cases our income and excess-profits taxes are imposed upon income that can never be realized and upon profit that will yet turn into loss. In any case it is certain that the return of peace renders it necessary for Congress to consider carefully the effects of proposed revenue legislation upon the readjustments which now seem to lie ahead of American industry.*

- 6 The experienced business man cannot be, and is not, permitted under Treasury rulings to take conservative inventories, writing off in prosperous years large percentages for depreciation or obsolescence of machinery, fixtures, doubtful raw material or manufactured goods, in order to put his affairs on a sound basis for the leaner years which periodically recur.
- 7 The large share of the profits which the Government claims, offers great temptation for wasteful expenditure in advertising, exploitation of doubtful markets, risky investments, and other forms of waste, on the theory that the Government is actually standing the greater portion of such expense.
- 8 The so-called "excess profits" and other profits in business are shrinking in many industries and have entirely disappeared from others, whose operation for the current year will undoubtedly show a loss.
- 9 To finance the needs of a great Government by dependence upon huge revenues derived from excess profits, or any other kind of tax on profits from the operation of business, is extremely hazardous.
10. Sneers to the contrary notwithstanding, the average American business man is concerned with something larger in his business than "profiteering," and he naturally looks with great disfavor upon a system of taxation which forces him in peace time to increase his profits to an extent which seriously hampers the power of the consumer to buy his goods.
11. As business is conducted for profit, substantial business taxes must form part of the cost of commodities, and every transfer of title to such commodities carries the burden of the tax, to be paid by the seller, thus forming part of the price to the purchaser, who in turn adds his own business tax when he sells. The result is that in an average of 5 or 6 turnovers it is possible that the pyramided normal tax, excess profits tax, capital stock

tax, and in some cases special excise tax, may amount to an increase of 50 per cent in the price to the consumer.

12. While our excessive and complicated business taxes are not the sole cause of the high cost of living, they are indisputably one of its greatest contributing factors.

The Department of Justice has made a study of the effect of present business taxes on the high cost of living, and its representative recently stated that 23.2 per cent of the present prices of the necessities of life is attributable to pyramided business taxes.

Even though it is not freely admitted by some economists, business men *know* that in a large percentage of cases in the past, and in practically every instance in the future, substantial business taxes have been, and will have to be, added to the cost of merchandise for the same reason that all producing or manufacturing costs, rents, royalties, wages, salaries, travelling expenses, advertising and general overhead must be included. The conclusion is inevitable, therefore, that the consumer is bearing a very heavy burden under our present tax system.

Prices and profits are not solely controlled by business taxes; but business taxes must be, and necessarily are included in merchandise costs. Having established his cost, the merchant must take into consideration a number of factors in making his selling price.

In a seller's market, such as we have had since 1915, profits rose very rapidly in those lines in which the demand was large and the supply limited. In other lines of lesser demand and greater supply profits remained more nearly normal. Competition was negligible under the former, and very important under the latter condition.

Whether high business taxes as part of the costs had much to do with fixing the war prices of goods for which all the world was bidding is questionable; but as to those goods which continued to be sold under competitive conditions, there is no reason to believe that heavy normal, excess profits, and special taxes could have been, or were disregarded in the selling prices.

It is a universal rule of business that every substantial increase in the cost of production must be reflected in the selling price. This rule may possibly be temporarily disregarded in a wild seller's market. With a return to normal conditions, however, dealers who wish to remain solvent will certainly reflect in their selling price the very large item represented by the present taxes on business. It would seem almost childish to insist, as is being done in some quarters, that such is not the case.

S U R T A X E S

The present personal income tax, while bearing heavily on moderate incomes, often permits very large incomes to entirely escape taxation, because of investment in non-taxable securities. The rate of tax on income, therefore, should not exceed the point at which the taxpayer

*Page 47, American Economic Review, March, 1919.

can get a reasonable return on investment in *taxable* securities. Any rate of tax beyond that point will cause investors to dispose gradually of taxable securities and replace them with non-taxable ones, thus depriving the Government of revenue and creating a class of non-taxpayers, to the extent that people of great wealth invest their incomes in tax-free securities.

In addition to depriving the Government of revenue, this practice of investing huge sums of money in tax-free securities withdraws large amounts of investment capital from taxable stocks and bonds, which, if continued, will seriously cripple many industries, including railroads and public service corporations. The income tax, should therefore be graduated only to the point where it shall continue to be productive.

The following estimated amount of tax exempt bonds has been compiled by Mr. Otto H. Kahn of New York:

ESTIMATED AMOUNT OF TAX EXEMPT BONDS

	In Round Figures
1. Debts of States, Cities, School Districts, and other political subdivisions	\$6,500,000,000
2. United States interest bearing debt, issued prior to 1917	875,000,000
3. Debt District of Columbia and United States possessions	50,000,000
4. Liberty $3\frac{1}{2}\%$ and Victory $3\frac{3}{4}\%$ Bonds*	5,650,000,000
5. Sundries, such as City and State Revenue Warrants, issued and afloat, and Federal Farm Loan Bank Bonds	500,000,000
6. Bonds of the Second, Third and Fourth Liberty Loan issues, although generally taxable, are entirely tax exempt up to certain limited amounts in the hands of holders.	
This absolute tax exemption applies to amounts which may be as high as \$130,000. Bonds in the hands of any one holder. It is safe to figure that this aggregates an actual tax exemption of not less than	500,000,000
	<hr/> \$14,075,000,000

*The Victory Bonds were issued as either $4\frac{1}{2}\%$ per cent taxable or $3\frac{3}{4}\%$ per cent tax-exempt bonds, the holder of the former having the unrestricted right to convert into the latter, and vice-versa.

N.B.—This estimate is based upon figures taken from the U. S. Census Reports, Daily Bond Buyer, the Financial & Commercial Chronicle and other reliable sources.

There has been some hope that the courts might decide that Congress has the power to enact legislation which would make the bulk of these tax-exempt securities subject to the income tax. This question, however, seems to have been settled negatively and definitely by a recent decision of the United States Supreme Court rendered in the case of *Evans vs. Gore*, involving the right of Congress to tax the salaries of Federal Judges. The Court referred to and confirmed its previous decisions, and expressed the opinion that the 16th Amendment does not extend the taxing power of Congress to previously excepted subjects, and therefore does not permit the taxing of municipal income.

Both ex-Secretary Glass and Secretary Houston are on record against the continuance of the higher surtaxes. Assistant Secretary R. C. Leffingwell, in an address delivered before the Academy of Political Science on April 30th last, said:

"We have gone beyond the point of productivity with respect to surtaxes. Today the country is suffering from lack of capital for essential business purposes. That is because you cannot get the same dollar twice from any man. If you take money from any given taxpayer for taxes you can't sell him bonds for the same money, nor can the railroads sell him bonds. The surtax rates are so high that they drive the capital of rich men out of the country or into exempt securities, with the result today that we are subsidizing wasteful expenditures by states and municipalities or encouraging expenditures by them at a time when they might be deferred until the supply of capital was larger and sufficient for all, and we are discouraging investments by such men in other high grade securities."

INCREASED TAX EXEMPTION FOR PERSONS OF SMALL INCOME

As our programme depends primarily upon the turnover tax for income, and only in a secondary degree upon taxes on personal income, it seems to this Committee only just that persons of small income should receive the same consideration which was shown to them when this Government first levied income taxes in 1914, especially because the purchasing power of the dollar has decreased more than one half.

Instead, therefore, of the present exemptions of \$1,000 for single persons and \$2,000 for married persons, we believe the exemptions should be \$2,500 and \$5,000 respectively, retaining exemptions for minor children and other dependents and increasing them as well.

Persons of small income normally spend from 90% to 100% of it for living expenses, including rent. Under such circumstances those persons will be paying from $2\frac{1}{2}\%$ to 3% of their income in indirect taxes on all expenditures except rent, and will thus be contributing a fair share of their income to Government maintenance. This increased exemption will serve also to eliminate the great number of small dealers, especially

farmers, from paying income taxes. The farmer, for instance, beside his specific exemption as a married man with additional exemption for minor children and other dependents, would have exemption for minimum turnover, which, combined with personal income tax exemptions, will in the majority of cases practically eliminate him from the tax lists. The same state of facts applies to the very small merchant, to the mechanic who does a small amount of business, and to the person who renders a small amount of personal business service.

All this would make for facility in administration and it has the additional virtue of lessening the burdens which are resting so heavily on the shoulders of those least capable of bearing them.

GROSS SALES OR TURNOVER TAX IN LIEU OF ALL OTHER BUSINESS TAXES

Advocates of the gross sales, or turnover tax in lieu of all other business taxes have been challenged to give some reasons why the selling of merchandise or of services should form the basis of a tax.

We believe the answer is simple.

The entire wealth and prosperity of our country depends upon what may, for want of a better general expression, be termed "business." That is, it depends upon the products of agriculture, animal industry, the mining of metals, minerals, and oils, forestry, the turning of raw materials into manufactured products and buildings, and all the movements of raw materials and finished goods through the various channels of trade, until they reach the consumer. This embraces the services of professional men who conduct a business which has to do, directly or indirectly, with one or more of these various processes. It includes all transportation and public service and all methods of intercommunication, such as telegraph, telephone, railways, steamships, mails, etc. In short, the movements of business, so conceived, furnish the foundation of all our wealth.

To protect all business operations and the great interests involved, in order that they may exist and function free from foreign aggression or interference is one of the primary functions of the Federal Government. Because of this protection and other valuable services rendered by the Federal Government, it is right and fitting that the expenses of the Government should be largely, if not entirely, provided for by business.

My own personal view is that business, through the medium of a small turnover tax, could well pay the entire cost of economically running the Government, take care of the great national debt, and permit the dropping of all other kinds of federal taxation. Such an exclusive tax would naturally eliminate the personal income tax and relieve business from the burden of providing the additional interest, dividends or profit which it must now furnish to pay the income taxes. In other words, I believe that personal income taxes practically amount

to indirect business consumption taxes which business must generally find for the individual taxpayer.

The Business Men's National Tax Committee, however, has not gone so far as to advocate dropping the tax on personal incomes, except as we have indicated by increased exemptions for small incomes and the reduction of some of the higher surtaxes.

Assuming that it is the duty of business to furnish the bulk of financial support to the Government, the question arises as to the manner in which business can pay this revenue with the least possible disturbance to or interference with its various essential operations, and what is even more important sociologically and politically, with the lightest burden on the consumer.

Notwithstanding the views of some economists to the contrary, the producer or manufacturer of goods is very much concerned at all times regarding the capacity of the consumer to buy a maximum amount of his merchandise, and the constant trend of business is to cheapen production in order to increase the volume of sales. Experience has taught that the larger the output, the smaller is the cost per unit, and the marketing of the larger output generally results in a smaller selling cost per unit. While, therefore, business may actually receive larger net profits at smaller prices, the consumer on his part has had the benefit of the cheaper prices.

Business men have been studying the effect of the very heavy normal and excess profits taxes levied on business during the past three years, taking into consideration all those elements which go to make up the fiscal policy of the Government, so far as taxation is concerned.

Our conclusions are very direct and simple: We believe

First—That business can well afford to pay a tax based on every turnover of merchandise, provided the rate of tax is a very low one and that this shall be the only tax on business.

Second—Tax on turnover is a more certain tax, because it does not depend upon profits. The experience of business men is that profits are very difficult to anticipate and that there are always a certain number of unprofitable years followed by better years, and only occasionally by extraordinarily good, or "boom" years.

Third—Our present system throws too heavy a burden on business men. They are faced with the necessity of providing very large sums of money as the Government's share of the taxes which, even though they have been collected from their customers, are very often not in the form of cash in hand, but in book accounts, raw materials and merchandise.

We believe, in short, that a general turnover tax, not exceeding 1% will furnish to the Government all the money which it may require, even in these days of huge expenditure and this, with a moderate tax on personal incomes, revenues collected from duties, and an inheritance tax, will give the Government ample funds to pay its way and ought to furnish a surplus sufficiently substantial to retire our present great debt within a generation.

We shall take up in detail the question of the turnover tax and shall consider especially some of the principal objections which have been offered against it, and also some of the arguments in favor of a limited sales tax.

CONSUMPTION TAXES

According to the Committee on War Finance of the American Economic Association, the Federal Government has in the past derived its tax revenue almost wholly from consumption taxes in the form of duties on imports, and, since the Civil War, excise taxes on liquors and tobacco.

Of the \$1,150,000,000 of tax revenue collected during the War of the Rebellion, that is from 1861 to 1866, over 75% came from consumption taxes, while in 1913 95% of the total tax revenue of the Federal Government was supplied from consumption taxes.

In 1914, the first year of the income tax, consumption taxes yielded 89½% of the total tax revenue.

Here is unmistakable evidence that the people of the United States are not facing any new problem when they are asked to pay an indirect consumption tax in the form of a pyramided turnover tax on all sales, which may amount to 2½ to 3% of the final price of goods for consumption. They cannot possibly consider this small tax a heavy burden.

Up to the beginning of the Great War, then, about nine-tenths of our revenue came from indirect consumption taxes, however concealed from the public eye. Duties on imports, and excise taxes, collected from producers or manufacturers, impose heavy tax burdens on the consumer. These duties and excise taxes, because they are collected from the importer, manufacturer and producer, become part of the initial cost of the goods and every sale or turnover made thereafter carries the gross profit on the duties and taxes, as well as on the other cost elements of the merchandise.

It is safe to assume that, in the past, for every dollar the Government has collected, either as duty on imports or excise tax on liquor and tobacco (when those excise taxes were collected from manufacturer or producer), the consumer paid at least two dollars, or 100% profit on the duty or excise tax, which additional dollar, however, the Government did not get.

Our imports, however, are fortunately but a small part of the annual turnover of the country, and it is conceded that there are other important principles involved in the practice of levying heavy customs duties.

Under our proposed turnover tax, the Government will get every penny of the small pyramided tax, which will probably average less than three per cent of the price paid for goods by the consumer.

SO-CALLED "LUXURIES" AND "NON-ESSENTIALS"

The suggestion has been made that the only desirable sales tax is one to be levied on a selected list of articles deemed to be non-essential or luxurious, that it shall be collected at that point of manu-

facture or distribution where the industry is most highly concentrated, and that its rate be 10%. In this list are included most of the commodities now taxed under Title IX of the Revenue Act: automobiles and accessories, sporting goods, toilet articles, electric fans, chewing gum, thermos bottles, works of art, furs, jewelry, cameras, etc. It is proposed also that additions be made to this list.

At present these commodities are taxed at rates ranging from 3% to 10%. If the rate be fixed at 10%, some will be taxed twice as heavily, and others thrice as heavily, as they now are.

If we add to the list now taxed, we shall have vigorous opposition from every new industry proposed to be included.

We shall continue, under this plan, to levy discriminatory and inequitable taxes, whose only excuse for being was the active prosecution of the war. The war is ended and discriminatory taxes should be eliminated, not perpetuated.

The very form of the tax proposed is objectionable, because, unless the 10% tax levied on manufacturer or producer is passed along on each successive transaction at the foot of the invoice (and this is not practicable), it will be included in the first selling price, and will go through the familiar process of increase by adding gross profit on gross profits until, after five or six turnovers, the 10% tax originally paid to the Government, will probably amount to a pyramided tax of 20% to be paid by the final consumer.

This is not the path which will lead back to lower consumption prices.

If such a plan were adopted, moreover, Congress would be faced with the dilemma of defining "luxury" and "non-essential." This is a task so complex that the Council of National Defense, as well as the War Industries Board, refused to undertake it. During the war many worthy people insisted that these two War organizations should issue lists of non-essential industries in order that steps might be taken to put them out of business.

The clear-headed men on these great public boards, who were responsible for the direction of industry during that time of stress, refused to stigmatize any industry as definitely non-essential, bearing in mind the fact that a highly essential munitions factory might immediately become non-essential with the termination of the war; and, conversely industries producing the luxuries of civilization would be most essential at that time in providing work for the returned soldier and for the men who had been temporarily employed in producing goods actually essential to the prosecution of the war.

Let us consider the articles now taxed under Title IX of the Revenue Act.

In the first place, we find diversity of rate, and much injustice. Sporting goods are taxed at 10% when sold by manufacturer, producer or importer. We suppose this was done on the theory that sporting goods are luxurious and non-essential. The fact that much of this material may be necessary for the upbuilding of the youth of the

country and for keeping men and women in good health and fit for the business of every-day life might almost spell essentiality. Here we have a tax which, because it is pyramided all along the line, has fallen with very heavy impact on the consumer.

Automobiles may be, and undoubtedly are, absolutely essential to many people in their business and in their private pursuits. The country doctor, builder, lawyer, farmer, and their city prototypes, using a "flivver" instead of the old-time buggy, or the street car, can hardly be accused of acquiring a luxury or non-essential. Admitting that cheap cars of the Ford type may be distinguished from the higher-priced automobiles, are we to say that a more costly car owned by a city doctor for the same uses as the more modest car used by the country doctor becomes a non-essential or a luxury merely because of its higher cost?

The Act of 1917 placed a tax of 3% on a very restricted list of the goods sold by jewelers. Under the stress of necessity for securing greater income, Congress, with the help of the jewelers, framed a tax paragraph for the Act of 1918 which covered practically every article sold by the jeweler. The Ingersoll watch, the nickel alarm clock so necessary to the worker, the better jeweled watch without which the railroad engineer cannot perform his duty, the collar button, silver plated table ware, and many other articles equally essential and useful, are included in the list upon which the consumer now pays the 5% sales tax.

Candy and soft drinks are supposed to be other non-essentials, or luxuries, which may properly be taxed 10% on sales by manufacturer, producer or importer. This may amount to fifteen per cent or more when sold to the consumer.

Many people will not be willing to grant that candy and soft drinks are luxuries and they can find very strong grounds for proving them necessities especially in these days of national prohibition. Before the Volstead Act became law, there were annually consumed in the United States sixty million barrels of beer containing about eight hundred million pounds of malt sugars (maltose and dextrines). Despite the advent of "near beer," the habitual beer drinker, feeling the physical effect of the withdrawal of the sugar ration formerly imbibed with his beer, often turns to candy and soft drinks for the sugar which his system demands. This undoubtedly accounts for much of the increased consumption of sugar in the form of candy and soft drinks. Candy has become a well-recognized part of the diet of the country and should not be regarded as a luxury.

Many Congressmen must have felt regret when they voted for the present tax on art. If the suggestion for the continuation of the special sales taxes at a rate of 10% should be adopted, art will continue to pay more than its share of the taxes. Under rulings of the Department of Internal Revenue, a very peculiar condition has developed with respect to the art paragraph (Section 902) in the present Revenue Act. Notwithstanding the fairly clear intention of Congress to tax art objects, either when sold for consumption or use or when sold by dealers, literal construction of the law has brought about the condition where

art is now taxed on every turnover. It is possible for a painting to pass through the hands of half a dozen dealers and be taxed 10% each time on the sales price. If finally, an art collector should sell the painting back to a dealer, this sale is also taxed and from there on the same process may be repeated all over again. This is simply one of the curiosities of the Act of 1918.

Musical instruments are included among luxuries or non-essentials under the present act. Is a piano, used by a musician for concerts, non-essential? Are musical instruments used by members of an orchestra, or by persons who are trying to acquire the art of performing on them, essential or non-essential? It may be argued that during war time music becomes a luxury; but it must be remembered in this connection that one of the most potent factors in preserving the morale of our own men at the front was the use of these same "luxurious" musical instruments used in providing constant entertainment behind the lines and in the camps.

Questions of the same nature may be asked concerning practically every other item taxed under Title IX. Furs are absolutely essential in the north and northwestern parts of our country. Electric fans in hospitals, workrooms, stores, offices and dwellings are highly essential to the health and comfort of our people, while thermos bottles have ceased to be a luxury and are now within the reach of every worker and form an adjunct to the dinner pail.

If addition of other articles to the list now embraced in Title IX should ever be seriously contemplated by Congress, it will be interesting to observe the attitude of those who favor taxation on the ground that an article is a "luxury" or "non-essential." For example, take clothing: What kind of clothing is essential? Some covering, of course, is necessary. Overalls and jackets, however, serve most of the practical uses of clothing. If this is conceded, then it follows that all clothing costing more than \$8.00 a suit for men or women may be considered non-essential, if not exactly luxurious.

What shall we say of laces, silks, velvets, fine linens, fine furniture, fine china, cut glass, expensive wall coverings, costly interior decorations, expensive plumbing fixtures, materials for building luxurious country and city houses, all of which are not now taxed and all of which make for artistic progress in our country and serve to raise us from the dull level of clods.

If a list of luxuries and non-essentials is to be prepared, we must not forget cut flowers, hot house fruits, vegetables raised under glass, and many other things which are always luxuries for the man with a slender purse and might even be considered non-essential when bought by the rich.

A survey is now being conducted under the auspices of the General Education Board in an effort to discover the weak points in the art of designing in many of our industries with a view to remedying any defects which are found. Advocates of placing a penalty upon the production and sale of artistic objects and the things of beauty which

make life worth living to people of taste and culture (and our entire nation may well be considered to be relatively possessed of these characteristics), are trying to turn back the clock of civilization.

Another reason advanced with great fervor by advocates of a special tax on so-called luxuries and non-essentials is that such taxes will discourage spending and encourage saving.

Luxury and waste always flourish, especially after a war; but only the common sense of the people will bring some of them back to normal conditions. Precept and example on the part of the Government will be more effective than ill-judged and discriminatory taxation. Even if it were possible to make a definite list of luxuries and non-essentials, a drastic tax rate might cut down the sale of such goods. If this were to happen, great numbers of wage earners whose life work has been the production of goods which usually spell civilization would be thrown out of employment or forced to accept greatly reduced wages. Billions of dollars of capital invested in the production of these so-called luxuries and non-essentials would cease to have earning power, and industrial bankruptcies, with their wide-reaching effects on dealers, stockholders, and banks, would follow.

It is therefore sheer folly in peace time to base a system of taxation on a few specially selected articles of commerce with the avowed purpose of discouraging the manufacture and consumption of goods upon which the prosperity of the nation depends in no small degree.

SPECIAL TAXES

The recommendation has also been made that added revenue can be secured from a tax on certain selected articles of wide and general use, always on the supposition that the corpus of the present act is to be preserved.

The same objections can be urged against these special taxes as against taxes on so-called luxuries and non-essentials. They are discriminatory and inequitable and have no cause for being in time of peace.

However, let us consider this proposal:

A tax on gasoline is recommended, to be paid by the refiner at two cents a gallon. This, of course, will be added by him to the cost of his fluid and, by the time it reaches the consumer, the profits of the several handlers of the gasoline will be added and the consumer, instead of paying the two additional cents which the Government demands, will pay not only that but a greater sum which includes the profits on the tax.

The same process will be gone through with sugar, on which an additional duty of 2 cents a pound is suggested. With sugar selling at 20 cents a pound retail, this would amount to an additional tax of 10% on the consumer, plus, however, the profit on the two-cent tax at every turnover from payment by the importer to final sale by the retailer. Adding the gross profit of each dealer, this added duty of 2 cents may well aggregate over 3 cents on the final sale, and amount to a consumption tax of 20%.

Another suggestion for additional revenue to replace that which will be lost by repeal of the excess profits tax is to raise the rate of postage from two to three cents on first class mail. One cent does not "cut much ice" with the theorist, but it may mean much to the business man whose outgoing mail runs into hundreds of pieces daily. The three-cent postage on first class mail was tolerated as a war measure; but the business world was quite content to go back to two-cent postage after the termination of the war. The imposition of such a tax in peace time would be unjustifiable.

APPLICATION OF THE ONE PER CENT TURNOVER TAX

We have worked out the effect of our proposed tax on several articles of wide utility. We have secured tables showing the effect of this tax on a suit of overalls and jacket, a suit of men's clothing retailing at \$60, a pound of granulated sugar, a yard of taffeta silk, a rubber tire, a pair of heavy service gloves, and on some other items. These tables have been prepared by men and firms prominent in their respective lines, and, where we are permitted to do so, their names are given.

We take great pleasure in submitting the following tables, which amply demonstrate that the cost of our proposed tax to the ultimate consumer will not exceed 3% of the price of the commodity and will often be less:

ON GRANULATED SUGAR

Furnished by Seeman Brothers of New York

Tax at 1%

1. Raw Sugar, if bought by Refiner from Importer*	110 lbs. @ .16	\$17.60	\$.176
2. Refined Granulated Sugar from Refiner to Wholesaler (based on 10 lbs. loss in refining)	100 lbs. @ .21	21.00	.210
3. Wholesaler to Retailer Based on \$1.00 per 100 for gross profit and 50c per 100 for average freight from refinery	100 lbs. @ .22½	22.50	.225
4. Retailer to Consumer Based on \$2.25 per 100 for gross profit and 25c per 100 for average freight from wholesaler	100 lbs. @ .25	25.00	.250

Total tax on 100 lb. price for consumption.... \$.861

Tax on 1 pound selling at 25c..... .00861

Or 3.44% of the price to Consumer.

* If the Raw Sugar is imported direct by the Refiner, as it usually is, the total tax would be reduced to .685 on 100 lbs. Granulated, or 2.74% of selling price to consumer.

August 13, 1920.

ON BREAD

Compiled by Mr. William C. Cornwell, Editor of the *Bache Review*, from information obtained from various wholesale and retail dealers in New York City. Printed in the *Bache Review*, April, 1920 (Special Edition).

ON BREAD

In estimating the effect on the price of a loaf of bread, the tax would be levied first when the wheat leaves the producer; second, when it leaves the miller; and, third when it leaves the retail grocer or the baker. Prices and taxes would be as follows:

When It Leaves the Farm

	Price	Tax
One bushel of wheat would be sold for, say.....	\$2.00	\$0.02

When It Leaves the Miller

4½ bushels of wheat to the barrel, with flour averaging \$12 per barrel, would make one bushel of wheat in flour, worth.....	2.67	.0267
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When It Leaves the Baker

A barrel of flour makes from 260 to 270 loaves of bread. One bushel of wheat is two-ninths of a barrel of flour. This would make 60 loaves to a bushel of wheat. Figuring these 60 loaves at an average of 8c to 9c per loaf, price would be....	5.10	.0510
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This would make the total tax on all sales of a bushel of wheat, from wheat to flour to bread.....		\$0.0977
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This tax thus far—approximately 10c—is the total price to be added to the 60 loaves of bread on account of the one per cent tax on sales progressively from the farm to the consumer.

This total tax, if passed along, is so small, amounting to less than one-sixth of a cent per loaf, that it could not be added to the price per loaf to the consumer. It would probably be passed on by the miller and be paid by the baker; but would be such an infinitesimal reduction from his profits that he would be almost totally unaffected.

These calculations are based on only three sales, from farmer to consumer; but if one or two more sales of the wheat take place it would still leave the tax at a small fraction of a cent to the loaf.

Further than this, it is stated that bakers do not bake half the bread used. Many domestic users buy flour from grocers and make their own bread. This further reduces the individual tax.

ON BEEF

Printed in the *Bache Review* for April, 1920, (Special Edition) founded upon figures furnished by Armour & Company.

CALCULATIONS OF THE TAX ON BEEF

In the same way the tax-result on beef may be estimated, as follows:

Result on steer killed July 17—1919—Lot 301.

Cost of Live Animal and Expense in Killing and Disposing of Resulting Products

Live weight 1,202 lbs. @ 16.34 per cwt.....	\$196.41
Expense and labor, buying, killing, driving, yarding, feeding, refrigeration, etc.....	8.85
Cost of selling (branch house expense) 86c per 100 lbs.....	6.10
Freight to Branch House 710 lbs. @ 69c.....	4.90
Total Cost.....	\$214.26

Amounts Received for Products Sold

Fats—85.8 lbs. @ 18.81 per 100 lbs.....	\$16.14
Hide—78 lbs. @ 32.71 per 100 lbs.....	25.51
Offal—Edible and Inedible @ 41c per cwt.—live weight.....	4.93
Dressed beef—720 lbs. less shrink 10 lbs.—net 710 @ 23.99 cwt.....	170.33
Total selling price.....	\$216.91

How the Tax Would Affect the Consumer

	Price	Tax
If we analyze these figures, we find that the cost to the packer of one steer would be.....	\$196.41	
The tax of one per cent, to be paid by the farmer or the seller, would accordingly be.....		\$1.96
Following up the 720 lbs. (net 710 lbs.) of dressed beef, the selling price of this would be.....	170.33	
On which the tax paid by the packer would be.....		1.70
The total tax which might be added to the beef, first by the farmer and then by the packer, would thus be, when the beef reached the retailing butcher..		\$3.66
Dividing this tax up among the net 710 lbs. of dressed beef, we find that the tax on each lb. would be..		\$0.005+
If the butcher sold the beef at, say, an average, all cuts, of 40c per lb., his tax would be four-tenths of a cent per lb.—or two-fifths of a cent.....		.004

The total tax thus far, if added to the price to be paid by the consumer, would thus amount to.... \$0.009 which is a little less than one cent a pound on beef. This includes all taxes from the farm, to the packer, to the butcher and to the consumer.

ON PORK

Printed in the *Bache Review* for April, 1920, (Special Edition) founded upon figures furnished by Armour & Company.

CALCULATION OF THE TAX ON HOG PRODUCTS

We have obtained, also from official sources, figures on the cost of hogs and hog products, and have estimated the tax which, under this plan, would be levied from the time the animal was sold by the farmer until the various products reached the consumer.

Result on Hog—October 17, 1919

Live weight, 306 lbs. @ 14.3c.....	\$43.76
Expense and labor, buying, yarding, driving, killing, feeding, refrigeration, etc.....	4.59
Total Cost.....	\$48.35

Value of Products Resulting from Hog

Hams	14%	of live weight, 42.84 lbs. @ 20½c..	\$8.78
Bacon & Fat Bks. 31%	"	" " 94.86 " @ 21¼c..	20.16
Shoulders	12½%	" " 38.25 " @ 22½c..	8.61
Lard	8%	" " 24.48 " @ 29c....	7.10
Leaf Lard....	3%	" " 9.18 " @ 29½c..	2.71
Other Products	4.02%	" " ..	1.44
			72.52%
			\$48.80

72.52 is the per cent of marketable products to live weight.

How the Tax on Sales Would Affect the Consumer

	Price	Tax
If we analyze these figures, we find the cost to the packer of one hog would be.....	\$43.76	
The tax of 1% to be paid by the farmer or the seller, would accordingly be.....		\$0.44
Following up the approximate 217 lbs. of consumable products of one hog, the selling price of this would be.....	48.80	
On which the tax paid by the packer in selling this would be.....		.488

The total tax which might be added thus far, first by the farmer and then by the packer, would be, when the hog reached the retailing butcher..... \$0.928

Dividing this tax through the 217 lbs. of consumable products we find a tax on each lb. of..... \$0.0043

The tax thus far on the 217 lbs. of consumable products, is, as we have seen, about 93c, or at the rate of less than one-half of 1c on each lb. If the butcher sold the pork products at retail prices, he would receive about \$107, on which his tax would be about one-half of 1c per lb., namely..... .0049

The total tax, if added to the price to be paid by the consumer, would in all, amount per lb. to..... \$0.0092 which is a little less than one cent a pound on pork and pork products.

ON A SUIT OF MEN'S CLOTHING RETAILING AT \$60

Furnished by Mr. William Goldman of New York

	Tax at 1%
1. Raw wool in the grease, value about \$6.50.....	\$0.65
2. The wool dealer has the wool scoured and sells it to the Spinner, at say \$8.00.....	.080
3. The Spinner converts it into Yarn and sells it to the cloth manufacturer for say \$10.....	.100*
4. The cloth manufacturer weaves it into cloth which he sells for about \$4 a yard, 3½ yards.....	.1333
5. Trimmings, linings, etc., have a value of about 50% of the value of the cloth and have gone through the same processes of conversion as the wool has to the finished cloth. The tax on these would therefore be 50% of the sum total of the foregoing taxes, or.....	.1891
6. These materials are converted into a suit of clothes by the manufacturer, who sells it for \$40.....	.4000
7. The suit is sold at retail for \$60.....	.6000
Total tax on price for consumption.....	\$1.5674

Or 2.61% of the price to the Consumer.

*More than 50% of all cloth does not go through the process of spinning (the third step in the foregoing table). The majority of cloth used is known as "wool goods," which is carded at the mill which conducts all the processes from raw wool to finished cloth.

July 15, 1920.

ON A SUIT OF OVERALLS AND JACKET RETAILING AT \$8.00

(Standard 2.20 Indigo Denim)

Furnished by Sweet-Orr & Company, Inc.

	Overall	Jacket	Tax at 1%
1. Cotton in the bale, 4½ lbs. @ 40c.....	\$.90	\$.90	\$.0180
2. Spinners and Weavers:			
Denim, 7½ yds. @ 44c.....	1.65	1.65	.0330
3. Dealers in Trimmings:			
Pocket Drill .....	.1100	.....
Thread .....	.0500	.0425	
Buttons .....	.0250	.0350	
Buckles .....	.0103	.....
Totals .....	.1953	.0775	
	.0775		
Total .....	.2728		
The imposed tax on these items added from the source will probably total 2½%, or			
			.00682
4. The Overall manufacturer sells the garments to the retailer at.....	3.00	3.00	.06000*
5. The Retailer sells the garments to the Consumer for	4.00	4.00	.08000
Total tax on price for consumption..			\$.19782
Or 2.47% of the price to Consumer.			

ON A PAIR OF HEAVY SERVICE GLOVES RETAILING AT \$2.25 PER PAIR

Furnished by a prominent manufacturer of gloves.

			Tax at 1%
1. Raw Horsehide value as sold to Tanner by rendering company, or hide dealer about.....	\$.32		\$.0032
2. Tanning materials sold to Tanner.....	.10		.0010
3. The Tanner converts the hide into leather and sells to the manufacturer.....	.70		.0070
4. Supplies sold to the Manufacturer:			
Thread .....	.015		
Canvas .....	.025		
Binding .....	.010	.05	.0005

* If the goods were sold by the manufacturer to the jobber before reaching the retailer, there would be an added step entailing an additional tax of \$.05, making the total tax to the consumer \$.2478, or a shade over 3% of the entire selling price.

August 10, 1920

5. 1 Pair Gloves sold by Manufacturer to Jobber...	1.25	.0125*
6. 1 Pair Gloves sold by Jobber to Retailer.....	1.65	.0165*
7. 1 Pair Gloves sold by Retailer to Consumer....	2.25	.0225

Total tax on price for consumption..... \$\$.0632

Or 2.8% of price to Consumer.

ON A YARD OF TAFFETA SILK RETAILING AT \$2.25

Furnished by a prominent silk manufacturer.

		Tax at 1%
1. Raw silk thrown, value about.....	\$.6564	\$.0066
2. Cost of dyeing .....	.1652	.0017
3. The silk manufacturer winds warps and weaves the dyed silk which he sells for about \$1.45 per yard.....		.0145
4. The retailer sells this material for \$2.25 per yard .....		.0225
Total tax on price for consumption....		\$.0453
Or 2% of the price to the Consumer.		

August 19, 1920

ON A RUBBER TIRE

30 x 3½ Cord Tire, Retailing at \$35.10

Furnished by Mr. Horace DeLisser, President of the Ajax Rubber Co.

		Tax at 1%
1. Crude Rubber used at importation cost.....	\$5.35	\$.0535
2. Raw Cotton used as imported.....	3.00	.0300
3. Raw Cotton used domestic growth.....	.40	.0040
4. Imported Cotton into Yarn.....	4.20	.0420
5. Domestic Cotton into Yarn.....	.80	.0080
6. Yarn into Fabric.....	5.50	.0550
7. Yarn into Fabric.....	1.00	.0100
8. Miscellaneous Pigments.....	.70	.0070
9. The above materials converted into tires by the manufacturer, who sells them to the Franchise Dealer	28.45	.2845
10. Franchise Dealer sells them to the Dealer....	29.90	.2990
11. Dealer sells them to Consumer.....	35.10	.3510

Total Tax on price for Consumption.... \$1.1440

Or 3.259% of the price to the Consumer.

August 18, 1920.

* In some instances the Manufacturer sells direct to the consumer; this eliminates the 1% on 5 and 6.

* In other cases the Manufacturer sells to the retail trade; this eliminates the 1% on 5.

August 20, 1920

FARMING IMPLEMENTS AND MACHINERY

One of the largest manufacturers of farming implements and machinery has given us the following information:

"Owing to the variety of materials entering into the manufacture of the bulk of our products, it is not possible to furnish you with a detailed statement similar to that submitted to you in the case of a suit of clothes.

"We have, however, carefully analyzed some of our principal machines and taking all the various factors into consideration, we assume that the total turnover tax in our complicated industry will be equivalent to about 3 to 3½% of the retail price of our machines to the consumer."

ESTIMATED REVENUE FROM THE 1% GROSS SALES OR TURNOVER TAX

A gross turnover, or general sales tax, at 1% would probably yield at least \$3,000,000,000 annually, on the entire gross turnover of the country.

We give below some of the estimates which have been made of the annual yield to be expected from such a tax:

National Association of Manufacturers, Committee on Taxation.....	\$6,720,000,000
Roger S. Babson.....	5,000,000,000
Bache Review for April, 1920, Special Edition....	5,000,000,000
Dr. Thomas S. Adams of Yale University, over....	2,000,000,000
Mr. McCoy, Treasury Department, U. S. A.....	1,700,000,000

It would seem fair to assume from these figures that at least \$3,000,000,000 could be collected annually if the rate were 1%. This sum, or even two-thirds of it, in conjunction with a graduated tax on personal incomes, inheritance taxes and duties on imports, should be more than sufficient for the needs of the Government, even in these days of huge expenditures.

SCOPE OF THE PROPOSED GROSS SALES OR TURNOVER TAX

Included in the operation of the tax should be:

Gross sales of all kinds of goods, wares and merchandise;
Gross sales of real property;
Gross rents and royalties of all kinds;
Gross receipts of all kinds of public utilities;
Gross receipts of places of amusement, and clubs;
Gross receipts by banks and bankers, of interest and commissions;
Gross receipts of commissions by brokers and commission men;

Gross receipts of insurance companies, hotels, restaurants, barber shops, livery men, architects, accountants, lawyers, physicians, advertising agents, sale of personal services of others, etc., etc.

By "Gross" sales, rents, and receipts, we mean the actual amounts received without deduction of any expense of doing business.

These taxes should be collected monthly on the total turnover of the previous month.

The criticism has been made that the turnover tax of 1% on the sale of capital assets, including sales of farms and city homes, manufacturing plants, and the assets of huge corporations, is more than these transfers could possibly stand, especially as some sales of capital assets may be made at a loss.

Examining this criticism in the light of experience, we find that the expense of selling capital assets at present is generally more than 1%. In fact, commission charges on the sale of city real estate have recently been advanced from 1% to 2½% on all sales under \$40,000, while the customary commission for the sale of country property is 5%.

The same conditions apply to the sale of other capital assets, that is, there is usually a substantial charge for the service of selling, and the addition of the proposed 1% tax will therefore rarely cut a figure in the transaction.

It is true that sales of this nature are sometimes made at a loss; but that is not the rule. Under our proposed tax plan there will be no tax on the profits of such sales and it is therefore obvious that the vendors of city houses, farms, and all other capital assets will fare much better than they now do under the oppressive profits taxes. In any event, the seller can protect himself by passing the turnover tax on to the purchaser.

Many sales of capital assets have, in fact, been postponed because the owners of the property knew that the Government would take an unduly large share of a profit which may have been accumulating for a number of years.

Where there is reorganization of a corporation, with no actual sale of capital assets, the transfer could be exempted from the tax.

GROSS SALES OR TURNOVER TAX CAN BE CHEAPLY AND EASILY ADMINISTERED

A gross turnover tax is simple of administration. The sales book or cash book of the taxpayer will automatically furnish the basis for computing the tax. The report can be made monthly on a very simple blank, similar to that now used by the Treasury Department, where the taxpayer reports his month's sales on one line and his returns of merchandise as credits on another. The difference between the two shows his taxable turnover for the month.

A reproduction of this form is shown for the information of those business men who are not familiar with it.

UNITED STATES INTERNAL REVENUE
FORM 725-A (Revised Dec. 29, 1919)

MISCELLANEOUS EXCISE TAXES
(Title IX, Sections 992, 993, and 998, of the Act of 1919)

ORIGINAL RETURN

ARTICLES (For full description see Instructions)		DATE OF TAX	TAX COLLECTED	CREDITS, OVERPAYMENTS, ETC.	TOTAL TAX DUE
Section 992— Sculpture, paintings, jewelry, art porcelain, bronzes, and other objects of art.		10%	\$	\$	\$
Section 993— Furniture, real or imitation, precious and imitation stones, clocks, watches, etc.		5%	\$	\$	\$
Section 998— Rentals earned on lease or license for exhibition of picture motion-picture films.		5%	\$	\$	\$

Tax collected from license or license, Section 998.

I swear (or affirm) that the foregoing is a true return of the amount of tax due on sales or rentals of the above-mentioned articles for the month of _____, 19____, and that the credits claimed are allowable by law.

Sworn to and subscribed before me this _____ day of _____, 19____.

(Name) (Witness)

(See Instructions, par. 2)

(Title) (Witness)

Name

No. and Street

City and State

Signed

(State whether individual owner of business, member of firm, or if officer or partner in partnership. If you have nothing to report, make notation to that effect on this form and return to the Collector of Internal Revenue.)

A check for 1% of the turnover so indicated could be sent to the local collector with the return, and there would be not the slightest strain on business, the banks, or the Revenue Department.

The Government would be in receipt of several hundreds of millions of dollars each month, and would therefore be relieved of the present expensive necessity of borrowing money at high rates of interest on short term Treasury Certificates.

The task of checking the returns under the turnover tax would be trifling compared to the present colossal job of taking care of the normal, excess profits and special excise taxes under the Revenue Act of 1918.

Secretary Houston has publicly stated that the complexity of the present tax law has reached the point where it is clogging the administrative machinery and threatens to break it down.

It has recently been stated by Mr. Daniel C. Roper, ex-Commissioner of Internal Revenue, that while the Government is spending \$25,000,000 annually to collect the tax, the taxpayers of the country are spending at least \$100,000,000 in preparing their tax returns. Under our proposed plan, we think it safe to promise that most of this last item will be saved.

In spite of this high-priced expert advice from accountants and attorneys to taxpayers, the Government has recently collected hundreds of millions of dollars in additional taxes, and expects to collect several billions more, because corporations and other business concerns have made returns which do not agree with the views of the Treasury Department.

The Treasury Department has specifically stated that these enormous arrears of taxes are, in the main, due to innocent error. The fact remains, however, that these mistaken taxpayers, after paying the tax, believed that they had certain net profits and in reliance on that belief have paid out large sums of money in dividends. Some of them may now be faced with the alternative of somehow getting the cash to pay these huge arrears, or going into bankruptcy.

The continuance of such a costly and unworkable tax system for the foremost commercial nation of the world is little short of a scandal.

The adoption of the gross turnover tax in lieu of all other business taxes will permit the great army of accountants in the Treasury Department to catch up with their work. This will probably take several years and in the meantime Congress should promptly pass legislation which will make it possible for the Commissioner of Internal Revenue, with the consent of the taxpayer and the approval of the Secretary of the Treasury, to make a final determination and settlement of as many disputed cases as possible, which settlement shall not be reopened or judicially questioned, except in cases of fraud or malfeasance.

There are some other important points which have not yet been touched upon, to which I shall briefly refer.

INHERITANCE TAXES

If there is no constitutional inhibition, taxes should be so adjusted as to permit the levying of a single inheritance tax by Congress, providing for payment of a percentage of the tax so collected to the state in which the decedent's estate is situated.

Multiple taxation by Federal and State Government on inheritances should be abandoned at the earliest possible moment.

EVASION OF PERSONAL INCOME TAXES

Various suggestions have been made to prevent the accumulation of undistributed earnings through penalizing this practice by high rate of tax on the funds so accumulated.

We believe that this situation can be met more fairly and directly through a plan which I shall briefly outline:

Corporations, partnerships, sole traders, trusts and estates should be permitted to add to their capital a large percentage of each year's earnings. This percentage may be based upon a percentage of the capital, or a percentage of the earnings, or both.

The amount of earnings remaining should be distributed: by corporations, among their stockholders; by partnerships, it should be credited to the personal account of each partner; by the sole trader, it should be credited to his personal account; and by trusts and estates, it should be credited to the accounts of the various beneficiaries.

Through this process, all the earnings so distributed or apportioned will automatically become personal income and will be taxed as such.

If those earnings required by law to be distributed or apportioned are not distributed or apportioned before the end of the taxable year, they may be taxed annually, at a rate to be determined, until distributed.

The only valid reason we recognize for obliging a business to distribute any part of its annual earnings under penalty of special taxation, is to prevent the evasion of personal income tax. This, we believe, can be guarded against in the manner indicated.

After distribution has been effected and the distributed shares have become subject to the personal income tax, it is, of course, immaterial to the Government if all or any of the amount distributed to shareholders is reinvested in securities of the corporation, or the amounts credited to partners, sole traders, or beneficiaries are added to the capital of their respective business, estates, or trusts.

UNFINISHED INVENTORIES

Section 214 (12) (a) of the Revenue Act of 1918, relating to personal income tax, is as follows:

"(12) (a) At the time of filing return for the taxable year 1918 a taxpayer may file a claim in abatement based on the fact that he has sustained a substantial loss (whether or not

actually realized by sale or other disposition) resulting from any material reduction (not due to temporary fluctuation) of the value of the inventory for such taxable year, or from the actual payment after the close of such taxable year of rebates in pursuance of contracts entered into during such year upon sales made during such year. In such case payment of the amount of the tax covered by such claim shall not be required until the claim is decided, but the taxpayer shall accompany his claim with a bond in double the amount of the tax covered by the claim, with sureties satisfactory to the Commissioner, conditioned for the payment of any part of such tax found to be due, with interest. If any part of such claim is disallowed then the remainder of the tax due shall on notice and demand by the collector be paid by the taxpayer with interest at the rate of 1 per centum per month from the time the tax would have been due had no such claim been filed. If it is shown to the satisfaction of the Commissioner that such substantial loss has been sustained, then in computing the tax imposed by this title the amount of such loss shall be deducted from the net income. (b) If no such claim is filed but it is shown to the satisfaction of the Commissioner that during the taxable year 1919 the taxpayer has sustained a substantial loss of the character above described then the amount of such loss shall be deducted from the net income for the taxable year 1918 and the tax imposed by this title for such year shall be redetermined accordingly. Any amount found to be due to the taxpayer upon the basis of such redetermination shall be credited or refunded to the taxpayer in accordance with the provisions of section 252."

Section 234 (14) (a) is exactly the same and applies to corporations.

The provisions contained in these sections were clearly intended to provide for a slump in the value of raw materials and manufactured goods, which was expected to occur during the year 1919.

There is no doubt that many individuals and corporations were glad to avail themselves of the relief so provided. Many others, however, who were not hit by the heavily falling values in raw materials and manufactured products in 1919, but were caught in the spring of 1920, were entirely without relief, as these sections limit their remedy to the years 1918 and 1919.

All concerns whose business year ended on December 31, 1919 (before the drop in raw silk, wool, leather, rubber and some other raw materials and manufactured goods) made their inventories on the cost or market values of raw materials and manufactured goods as of that date. Other more fortunate concerns, whose year ended on June 30, 1920, made their inventories for the taxable year 1919 as of June 30, 1920, on the greatly reduced values then prevailing.

The former unfortunate class of merchants had to write down their high-priced raw materials and finished merchandise at cost or market, whichever was lower, and conceivably many showed a handsome profit for the year 1919. In many instances, however, these paper profits entirely disappeared during the next six months and, in some cases, were probably converted into loss.

The more fortunate concerns, whose year ended June 30, 1920, were enabled to make their inventories on the basis of replacement values of raw materials and finished goods. This naturally greatly reduced their profits and they will be obliged to pay taxes only on 1919 actual profits, unless, indeed, there should be still further depreciation in the value of the goods they had on hand on June 30th.

The first group, however, notwithstanding the fact that most or all of their supposed profits have probably disappeared, are still faced with the obligation to pay immense sums to the Government on paper profits which have never been realized.

This state of affairs shows another grave defect in the present Revenue Bill which should be immediately remedied. In the interests of fair dealing with our merchants, Congress should be urged immediately upon reassembling in December to pass a bill extending indefinitely the provisions of Sections 214 and 234.

IN CONCLUSION

The Business Men's National Tax Committee believe that they have here formulated a workable plan for a new tax law, to supersede the Act of 1918.

They sincerely believe that a single gross sales, or turnover tax on business and a tax on personal incomes, combined with duties on imports and taxes on inheritances will furnish the Government with all the money requisite for its needs.

They believe that the money so furnished will be equitably contributed by all the people of the land and that all the money paid for taxes will reach the Government free from the addition of profits, which never reach the Government.

They believe that the views of business men will receive respectful consideration from Congress, provided that those views are unanimous.

The Business Men's National Tax Committee therefore invite the co-operation of all business men, business organizations, and business tax committees, in arriving at some agreement upon a plan of taxation.

While we believe in our plan, we have no pride of opinion and are willing to regard it as tentative only. We are entirely willing to correct any mistakes, to adopt provisions which can be proven to be better than our proposals, and to work with any and every individual or any tax body for the formulation of a law which shall embody the elements which former Commissioner Roper has declared to be important, in the order named. These are:

1. It must produce the amount of money which the Government relies upon it to yield.
2. It must be susceptible of administration by the Government with reasonable accuracy and without unreasonable expense.
3. It must impose upon the taxpayer no unreasonable burden in the process of ascertaining what, under the law, is his tax liability.

We believe that any new tax law should be so constituted as to be permanent, thus doing away with the expense and confusion of repeated revision.

We believe it should be fair in its provisions, bearing equally on all classes and penalizing neither the very rich nor the very poor nor any of the grades of wealth between those two extremes.

We have shown that the present tax law embodies few, if any, of these virtues. We therefore plead for unity of program among all business men, and in that term we naturally include farmers and workers of all types.

It is necessary that the salient points of a new law shall be agreed upon with the least possible delay so that Congress may be asked to take up the matter of tax revision immediately upon its meeting next December. The time is short.

We believe that steps should at once be taken to call a conference of all business men and organizations interested in framing the new tax law. This call should include farmers, professional men, and workers in all fields of endeavor. We can think of no organization better fitted to undertake this task than the Chamber of Commerce of the United States of America, and it is hoped that the Chamber of Commerce will take the necessary steps to bring about such a conference in time to permit the formulation of tax plans for presentation to Congress immediately upon the beginning of the December session.

New York, August 27, 1920.

MSH 21905

END OF
TITLE